

JUAN VICENTE GOMEZ
AND THE
OIL COMPANIES IN
VENEZUELA, 1908–1935

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Introduction

The oil companies were attracted to Venezuela because of the expectation of large oil deposits, relative political stability, and the good terms offered for the exploitation of the country's oil resources. Venezuela's geographical position *vis à vis* the major oil markets placed her at a freight advantage over both her Mexican and Middle East competitors, and even over some American oilfields. Maracaibo is 113 miles nearer New York, and 863 miles nearer Southampton, than the Mexican port Tampico, and is only 644 miles from the Panama Canal.¹ This meant that Venezuela was 'favourably situated to export to Europe, to the United States and to the Pacific coast of America, and the Far East via the Panama Canal'.² Furthermore, her logistic production problems were far fewer than those of her Middle East competitors, because the oilfields were conveniently situated near sea transport, and because the offshore Dutch islands of Curacao and Aruba provided the companies with a safe haven in which to build their large refineries. Unlike the Middle East and Iran, Venezuela devised a concessionary system whereby most oil companies, regardless of nationality, could operate. In addition, production costs were much lower than in the U.S. and the number of barrels produced per active well much higher. Moreover, 80.5 per cent of the total number of wells drilled in Venezuela up to 1935 were productive, thus demonstrating much lower exploration and drilling costs in Venezuela than in the U.S.³ As a result, the average cost of producing a barrel of Venezuelan oil was \$0.65, compared to \$1.98 in the U.S.⁴

The development of the Venezuelan oilfields offered the companies higher profits, cheap oil, and the flexibility of being able to adjust output and distribution to changing world

Table 1 *Number of barrels produced per active well in Venezuela and the U.S. in 1928*

Region	Crude oil production (in million barrels)	No. of active wells	Barrels per active well (in thousand barrels)
Texas	255.4	910	280.7
Oklahoma	247.5	715	346.2
California	232.0	511	454.0
VENEZUELA	106.5	85	1,252.9
Kansas	38.2	225	169.8
Arkansas	32.1	62	517.7

Source: adapted from DS 831.6363/149, E.B. Hopkins, 'Some geological and economic notes on the Venezuelan oil developments', Paper given at the American Association of Petroleum Geologists, Fort Worth Meeting, March 1929

markets. The large vertically integrated oil company was interested in stabilizing the domestic U.S. market at a relatively high price for crude oil, thus allowing the company to supply foreign markets with cheap Venezuelan oil but to charge the U.S. high prices through the 'Gulf +' pricing structure then in use. This system effectively barred the cheap Venezuelan crude from competing with domestic American oil, and therefore prevented it from disturbing the American domestic market. But as oil production was controlled by the major oil companies and Venezuelan interests did not participate in the international oil markets, this effect was unimportant. The system did, however, have two overriding advantages for the continual growth of the young Venezuelan oil industry, which linked the interests of the Venezuelan government with those of the large vertically integrated oil companies. First, the country was assured of continuously rising oil revenues because the large oil operators would use Venezuelan oil as a lever to control the U.S. domestic oil industry and as a supply for European and other world oil markets; and, second, high U.S. oil prices meant that government royalty payments (expressed as a percentage of the value of oil) would be greater. The companies operating in

Venezuela also achieved considerable success, since, with the introduction of prorationing measures in the early 1930s, they had, within the United States, the structure to achieve and maintain high oil prices, while Venezuelan oil could be used to control any new major fields which might develop, and at the same time the large European markets could be supplied with cheap Venezuelan oil at high American oil prices.

The development of the oil industry in Venezuela took place under the rule of General Juan Vicente Gómez, who came to power in a bloodless coup on 19 December 1908, and died in his sleep on 17 December 1935. During his 27 years as absolute ruler, from being a predominantly agricultural country, Venezuela became the second largest oil producer in the world. Before this Venezuela was little known to the outside world, but by Gómez's death she had become of vital strategic importance to the British Empire, and in addition an important supplier of oil to America's Atlantic seaboard.

The political and economic problems which Gómez faced at the beginning of his rule were considerable. His economic plans were very ambitious, given the backwardness of the country's economic infrastructure and Venezuela's reputation in the major international money markets. In order to secure peace and stability during the ensuing years Gómez would have to maintain a delicate neutrality between the various political factions which were already claiming him as their true leader. At the same time he would have to stimulate the economic development of the country to a degree which had not been achieved previously. He was well aware of the economic constraints operating in the country and of the adverse influence which the German trading houses could exert on the country's economy. It was therefore necessary to stimulate the development of an independent source of revenue free from traditional political considerations. Consequently, from the outset of his rule Gómez encouraged the establishment of a healthy and thriving mining industry. There was nothing new in this idea – past rulers had also pinned their hopes on large mining revenues. What was novel in Gómez's case was that he achieved this independent source of income with the advent of the oil industry in the 1920s.

The relationship between oil companies and governments is

4 *Gómez and the oil companies in Venezuela, 1908–1935*

one of continuous adjustments as a result of changes in the international oil markets, the local economy, and local politics, with the government being in a fundamentally weaker position than the oil companies. This book examines this relationship, looking at the government's initial reaction to the new oil industry, the legal framework created to control and supervise it, the socio-economic effects, both locally and nationally, and the degree of control exercised by the government over the exploitation of its national resource.